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RUEHMN/AMEMBASSY MONTEVIDEO 5237
RUEHNY/AMEMBASSY OSLO 0150
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C O N F I D E N T I A L SECTION 01 OF 03 LA PAZ 000313

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TAGS: [ECON](#) [PGOV](#) [PREL](#) [ENRG](#) [EPET](#) [EINV](#) [BL](#)

SUBJECT: BOLIVIAN BUSINESS: GAS, PAPER, AND MILK MAS STYLE

REF: A. LA PAZ 3259

[1](#)B. LA PAZ 2981

Classified By: EcoPol Chief Mike Hammer for reasons 1.4 (b) and (d).

SUMMARY

[1](#)1. (C) The Movement Toward Socialism (MAS) vision of their 21st century economy is taking shape, but it only echoes the disasters of the past. The government recently announced the creation of state run milk processing and paper plants. These plans make little economic sense and were seemingly designed within the ideological vacuum of government offices. Moreover, the continuing process of "refounding" the state hydrocarbon company (YPFB) is beginning to show results: technical incompetence, threatened strikes, logistical failures, and public griping about purely politically motivated appointments. The Morales Administration is laying the foundations of the new economy, but they are faulty. (End summary)

THE NATIONAL HYDROCARBONS COMPANY (YPFB)

[1](#)2. (SBU) The general disorder within YPFB is becoming ever more evident. The additional responsibilities heaped on the company following the May 2006 "nationalization" were bound to cause strain, but instead of increasing technical know-how and professionalism, YPFB appears instead to be headed toward further politicization. Moreover, internal battles have become more public. In early February, the President of YPFB, Guillermo Aruquipa, was accused of trying to remove 30 workers in Santa Cruz by reducing their salaries and announcing mandatory reassignments to other areas of the country. The workers responded by drawing attention to a number of complaints: the existence of four different salary schedules, complete centralization of all decision making,

the random contracting of executives and technicians with no experience, a lack of safety concerns at industrial installations and frequent logistical incompetence. Following a local shutdown of YPFB installations in Santa Cruz, which lasted several hours, the workers announced a nation-wide strike for February 13.

13. (SBU) Government supporters within the company responded by taking out full page ads in the newspapers denouncing the planned strike. The headline read: "Petroleum workers of the nation will not support stoppages or strikes designed by neoliberal leaders." It closed by adding that "the neoliberal parties that destroyed YPFB today want to do the same with the nationalization" but "no one will hold back the process of change and the strengthening of YPFB".

14. (C) In the end the strike was averted through negotiations. The head of the Petroleum Workers of Bolivia, Domingo Velazques, announced that there was a government promise to attend to their demands. He also said that the workers had agreed to accept "social control" over the company so that the whole society can move the company forward. Social control is a ill defined concept pushed by the government, where businesses would need to work with local groups to shape the future of their companies. (NOTE: The private electrical companies have also been told they would need to rethink their businesses in light of "social control". This also points to perhaps the biggest threat posed by the proposed new constitution: it would require that any exploitation of natural resources be subject to a "process of consultation with the affected population". Moreover, when this involves indigenous communities, the consultations must also respect local "norms and

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proceedings". End note)

15. (C) Despite the settlement, the claims of the Santa Cruz workers are consistently confirmed by professionals outside of the company. The General Manager of FANCESA (a major cement producer in Sucre), Gonzalo Arce, who worked 15 years in YPFB and whose factory depends on natural gas supplies, reported that the few remaining colleagues he has in YPFB all confirm the politicization of the company. Moreover, he says that the salary ceiling placed on government workers limits the ability of YPFB to hire qualified personnel. Arce laments that when he dealt with Petrobras for his gas supplies, all the factory orders could be handled over the internet, professionally; now it takes several phone calls, letters, stamps, and waiting.

16. (C) Due to logistical problems, diesel shortages have been a constant strain on the economy over the past six months (Ref A). These problems are now affecting the supply of aviation fuel. In Santa Cruz, where small planes are used to spray crops (especially soy), the number of flights has been cut back from 170 per day, to only 55 because of fuel shortages. Crop losses are expected as a result.

INTERNATIONAL HELP NOT WANTED

17. (C) In November, Norwegian diplomats held meetings with YPFB to initiate a program of cooperation to help with the restructuring of the company (Ref B). Trond Gabrielsen, First Secretary at the Norwegian Embassy, told EconOff that despite promises of meetings with company president Aruquipa, the Norwegian Embassy has been unable to schedule any further meetings to advance their offer of aid. The Norwegians were dismayed with the lack of competence at YPFB back in November, and are now disappointed at the lack of follow-through at the Ministry of Hydrocarbons.

THE NEW STATE COMPANIES: MILK AND PAPER

¶8. (SBU) The Morales Administration, in accordance with its National Development Plan (PND) is moving to reinsert itself in the productive sector of the economy. As a first step, it plans to install eight new milk and paper factories. The decrees authorizing the creation of these factories was issued in September and list as their objectives: to substitute the dependency on imports; to reach food self sufficiency; and to add value to Bolivian natural resources (ironically no pulp is produced in Bolivia, all paper is imported and transformed into other products or made from recycled stock).

¶9. (C) Construction has begun on two of the planned paper factories, one in the coca growing area of the Chapare and the other in the altiplano of Oruro. Brothers Emilio and Conrad von Bergen, President and Vice President of La Papelera (the largest packing materials producer in Bolivia) think that the plans of the factories make absolutely no sense. The economic justifications are all wrong (there were even significant mathematical errors in the business plan), the machinery the government plans to import is inadequate, and the employment expected to be generated is unrealistic. To quote Emilio von Bergen, "It is not socialism, it is stupidity". That said, both expressed concern that as the first, exemplary model, the state run factory would not be allowed to fail; thus, it might create an unequal competitor over the short term. The brothers added that certain cooperation with the state in the sector may have made sense, but when they approached the government with their ideas they found only closed doors. It appears that plans for the

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future productive sector are made with little consultation with those who have actual private sector experience.

¶10. (C) Government plans for involvement in milk processing are equally mysterious. The marketing manager of PIL, the largest milk processor in Bolivia and a wholly owned subsidiary of Peruvian conglomerate "Gloria," Orlando Gutierrez, was somewhat baffled as to the government's possible plans. He thought that the production must be going to the government programs, such as school lunches, because it wasn't realistic to think that government production could compete with the private sector. Ironically, considering the government's blame of private agribusiness for inflation, Gutierrez's only concern was that government competition for milk would drive up prices. There is no planned additional dairy production, which will leave PIL bidding against the government for limited milk supplies, especially in the altiplano.

COMMENT

¶11. (C) Worth watching as the Morales Administration carries out its planned foray into production is the role of foreign money. The Brazilians have already pledged help in creating the paper factory in the Chapare. (A Chinese machine, refurbished by a Brazilian company, will be purchased. According to the von Bergen brothers, it is a machine that could never be sold to modern, Brazilian paper producers.) Additionally, Iran has pledged \$1 billion to help Bolivia. The aid is supposed to go primarily to the energy sector, but they announced that it will also be used to install 23 food processing plants, with the first six factories dedicated to the production of milk and paper. Post has yet to confirm if Iranian money is being used to build these initial plants.
GOLDBERG